

NEIL ABERCROMBIE  
GOVERNOR



CATHERINE PAYNE  
CHAIRPERSON

STATE OF HAWAII  
**STATE PUBLIC CHARTER SCHOOL COMMISSION**  
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## RECOMMENDATION SUBMITTAL

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DATE: July 10, 2014  
TO: Catherine Payne, Chairperson  
FROM: Tom Hutton, Executive Director  
AGENDA ITEM: Action on Federal Impact Aid Funds

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### I. DESCRIPTION

Recommendation that the Commission allocate to charter schools the federal Impact Aid funds previously designated for the Facilities Pilot Program, as well as an additional allocation of Impact Aid funds that the Commission received recently in lieu of other funds.

### II. AUTHORITY

Pursuant to §302D-28(d), Hawaii Revised Statutes (“HRS”), charter schools shall be eligible for all federal financial support to the same extent as all other public schools, and federal funds received by the Department of Education (“DOE”) for charter schools shall be transferred to the Commission for distribution to the charter schools it has authorized in accordance with the federal requirements.

### III. BACKGROUND

At its July 11, 2013 general business meeting, the Commission voted to distribute the larger part of this school year’s federal Impact Aid to charter schools at the previous fiscal year’s per pupil rate of \$285 and to earmark the temporary “bump-up” of remaining funds of \$1,248,417 to a pilot program to fund school facilities projects on the basis of need and performance, according to a process and criteria to be developed by Commission staff.

After several months of work on the program, at the Commission’s General Business Meeting on December 12, 2013, the Commission directed staff to proceed with the facilities pilot program, with reduced funds from federal Impact Aid funds in the amount of \$683,876, after distributing an

additional \$564,541 targeted to the start-up, brick-and-mortar charter schools for operating purposes.

Last month the Commission received an additional \$208,917 in federal Impact Aid funds from the DOE. These funds were provided as Impact Aid funds in lieu of a corresponding sum of other funds to which the Commission otherwise would have been entitled but which would have entailed much more administrative burden.

At its June 18, 2014 general business meeting, the Commission voted to suspend indefinitely the Facilities Pilot Program to distribute the remaining federal Impact Aid funds for operating purposes.

#### DECISION MAKING STATEMENT

##### Allocation Methodology – Six options:

Staff has prepared alternative allocations of the \$892,802 using six different methodologies (**Exhibit 1**).

**Option 1** is to allocate the funds on a straight per-pupil basis. This is the historical method and the simplest, as each school will receive the same per pupil amount. This method does not account for funding inequities or relative needs among the charter schools.

**Option 2** is to allocate the funds on the same basis as was utilized in the most recent allocations in December. This method targeted funding to the 24 start-up, brick-and-mortar charter schools in recognition of facilities inequities among conversion, online/blended, and startup schools, and the operational funding strain these inequities impose on brick-and-mortar start-up schools, as well as several other factors addressing other relative needs among schools.

Under this targeted model, each school was assigned a high needs score based on its population of Title I-eligible students, English Language Learners (“ELL”), and Special Education (“SPED”) students, in both absolute numbers and as proportion of overall enrollment. Schools serving greater numbers and higher percentages of high-needs students face greater financial, academic, and other challenges than those with lower percentages.

Title I eligibility is what the DOE’s Weighted Student Formula (“WSF”) uses to measure economic disadvantage, and the count is taken annually early in the school year and is used to qualify a school as eligible under Title I to receive funds. The amount of Title I funds provided to these schools is not allocated by student, but is determined at the state level and disbursed through the DOE based on a complex formula that incorporates statewide factors and may result in varying funding amounts to all Title I schools from year to year and may be subject to reductions in recession years.

The statewide ELL Program ensures students with limited English proficiency have access to educational opportunities by providing services that assist these students with the attainment of English language proficiency, develop high levels of academic attainment in English, and meet the same challenging State academic content and student achievement standards all students are

expected to meet. The ELL student count is as of the official enrollment count day of October 15, 2013.

SPED programs are specially designed instruction to meet the unique needs of students with disabilities. The SPED student counts are as of the official enrollment count day of October 15, 2013.

Under this calculation a student could potentially be counted more than once (*e.g.*, as a Title I eligible student and as an ELL student). To avoid such double-counting was precisely the reason the Strive HI Performance System now employs a super sub-group instead of disaggregating high-needs populations. However, staff reasoned that for purposes of resource allocation, as opposed to academic accountability, double-counting is entirely appropriate, as the additional needs do entail additional costs and effort.

To arrive at the high-needs percentage, each of the three counts was accumulated and the sum compared to the school's total enrollment as of the official enrollment date. Where a school's percentage exceeds 100, that school is attempting to meet overlapping high needs among some of its students.

Because there are costs and educational challenges associated not only with absolute enrollment of high-needs populations but also with their concentration and proportion of the overall student body, the targeting method also factored in the school's percentage of high-needs population. In order to weigh this factor significantly enough in comparison to absolute enrollment counts that reach as high as 483, the percentage was doubled. This also had the effect of targeting some additional resources to the smallest schools, which lack the economies of scale of larger schools.

The third consideration for targeted funding looked at the school's third quarter ending cash balance. Days Cash on Hand is the most objective indicator available from data provided by the Financial Performance Framework to help the Commission identify schools facing operational funding challenges. Days Cash on Hand is calculated by dividing a school's cash balance by the average daily expense (total annual expenses divided by 365 days) and is an indicator of the school's ability to meet its cash obligations. Although this measure is as of a point in time, it can help to identify schools with current or potential cash challenges. This measure is also more conservative and realistic from a cash flow perspective.

To avoid inadvertently rewarding schools for what may be a reflection of weaker fiscal management, no weight was added for schools in poor cash situations. The Financial Performance Framework measures and targets 60 days cash on hand as the prudent and desired reserve of unrestricted cash for a school. Staff determined that an indicator of up to 120 days cash on hand at the end of the fiscal year still is prudent and desirable. The challenge was to avoid unduly penalizing schools for frugality, while recognizing that at some point the relative size of unrestricted cash reserves is highly relevant to evaluating the relative financial needs among the schools. The targeting method therefore reduced by somewhat (50 points) the targeting of schools that ended the third quarter with unrestricted cash reserves of at least twice the target level in the Financial Performance Framework (*i.e.*, 120 days, or about four months) and further reduces (by 100 points) the targeting

of schools that ended the third quarter with at least four times that amount (*i.e.*, 240 days, or about eight months).

The targeted funding also recognized in a relatively modest way the additional financial challenges of offering a high school curriculum program with high school grades. While the DOE's WSF does this by assigning flat dollar amounts to schools, for more modest sums like those allocated by the Commission the targeting method assigned schools that serve high school grades an extra 25 points.

Finally, the targeting method ensured that no targeted school would receive less of the funding than it would have had the entire amount been distributed on an across-the-board per pupil basis among all charter schools. The few schools that would have been allocated less instead were allocated the straight per-pupil amount, with corresponding proportional adjustments to the other targeted schools' allocations.

Employing the same targeting method to all of the remaining Impact Aid funds under this Option 2 would recognize the facilities inequities among charter schools, which was part of the premise of allocating the temporary "bump-up" in Impact Aid to the Facilities Pilot Program in the first place. It also would address the other need-related factors in the targeting method. To place this targeting in perspective, under this second method the total targeting of both the December allocations and the funding under consideration here would represent 19.47% of all Impact Aid and 1.3% of all funding allocated by the Commission this fiscal year.

**Option 3** combines the first two options in a "blended" method. Under the recently enacted Commission "cleanup" bill, Act 99 of 2014, FY 2015 will be the last year in which part of the Commission's operating budget will be funded from out the charter schools' per pupil funding. Under the blended method, an amount of federal Impact Aid equal to the amount of the Commission's budget that is to be funded from the per pupil, or \$560,000, would be allocated among all the schools on a straight, per-pupil basis. Only the remaining funds, or \$332,802, would be allocated on a targeted basis to the 24 start-up, brick-and-mortar charter schools.

The advantage of this method is that it would offset the funding of a portion of the Commission's budget one last time from per pupil funding, accomplishing in an indirect way the Commission's important legislative objective this year of ensuring that per pupil funding is not used to meet the Commission's budgetary needs, one fiscal year earlier than the Legislature was able to effectuate. The downside is that this method would dilute the additional modest, needs-based targeting that Option 2 would accomplish.

**Options 4, 5, and 6** would employ the same methods as described for Options 1, 2, 3, respectively, but only after first allocating to \$74,717.42 to Hālau Lōkahi Charter School so that the school—after accounting for funds it has received or is to receive for FICA reimbursement and from the Office of Hawaiian Affairs—can pay earned but unpaid compensation to its teachers through June 30, 2014.

As explained below, payment of teachers is one of the allowable uses for these federal Impact Aid Funds, although they are not the most efficient funding source for payment of salaries. These three

allocation options also have the regrettable effect of negatively affecting, albeit to a limited extent, the allocations to schools that have operated in accordance with their fiscal means in order to address a school that has not.

Halau Lokahi's governing board has chosen to continue Halau Lokahi as a public charter school and has entered into the new Charter Contract, however, it is unclear whether and how soon the new governing board for the school would be able to compensate the teachers.

#### Allowable use of distributed funds:

Several months ago two charter school principals requested and obtained an opinion from their deputy Attorney General calling into question the Commission's authority to allocate federal Impact Aid funds for the Facilities Pilot Program. According to the opinion, federal education funds in Hawaii generally can only be used for five specific purposes enumerated in Section 302A-1401, Hawaii Revised Statutes ("HRS").

At the time the targeted allocations were distributed, staff was pursuing clarification of this question with the Department of the Attorney General and the Legislature, and as a result Act 99 in fact now clarifies that the Legislature's intent was not to restrict use of federal education funds in the charter sector to the five purposes identified in the opinion to the two schools. The Commission recently has been advised, however, that even though Act 99 resolves the question going forward, because these Impact Aid funds were received by the Commission before Act 99 will go into effect on July 1, 2014, the funds still should be expended by schools only for those five purposes identified in the opinion.

Three of the five allowable uses are for teacher pay, options that have the significant disadvantage that under state law the 41.54% employee fringe in this situation also must be paid from out of the federal funds, rather than from state funds via the Department of Budget and Finance. The other two allowable uses according to the opinion are expanding educational options and purchasing materials and supplies. Some schools report that they have experienced some difficulty identifying sufficient expenses in these limited categories. This may be a factor arguing in favor of spreading these allocations relatively more among more schools.

#### IV. RECOMMENDATION

On balance, the staff recommends Option 6.

First, this option provides some immediate help to some Halau Lokahi employees, and it does so with a relatively minor impact on the other schools. It is worth noting that this impact is ameliorated by the additional \$208,917 in Impact Aid funds, which was unanticipated by the Commission or the schools. In addition, staff was notified that Governor Abercrombie has approved our request to release to charter schools the 10% hold-back that had been placed on all agencies' collective bargaining allocations. This amounts to an additional \$170,000 for the schools. The Commission would be justified on policy grounds in not allocating any additional funds to Halau Lokahi. But

under Option 2, for example, the school would receive nearly half of what is proposed here anyway, although that amount would leave it unable to compensate its teachers now.

Second, this option would in effect fulfill the Commission's commitment to working to ensure that its budget not come out of per pupil funds, by offsetting the amount by which the Legislature one last time has partially funded the Commission in this way. Although staff would welcome that result, we do acknowledge that Option 5 also would be entirely justifiable, in that the amount of needs-based targeting it represents still would account for such a minor portion of total allocations to the schools.

Proposed motion:

**"Moved:**

- 1. That the Commission allocate the remaining available \$892,802 in federal Impact Aid funds to the charter schools according to Option 6 as described in this submittal; and**
- 2. That staff implement such criteria for school use of the allocated funds and related reporting requirements as may be necessary to ensure that such spending conforms to legal requirements."**

**Exhibit 1**

**State Public Charter School Commission**  
**Allocation of Impact Aid Funds: \$892,802**  
**Based on Official Enrollment as of Oct. 15, 2013**

Exhibit 1 (1 of 2)

	<u>Total</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
	<u>Enrollment</u>	<u>Per Pupil</u> <u>Allocation</u>	<u>Targeted [a]</u>	<u>Per Pupil and</u> <u>Targeted [b]</u>
Connections	359	30,863.35	71,315.80	42,757.96
Hakipu'u Learning Center	61	5,244.19	27,057.24	14,464.44
Halau Ku Mana	121	10,402.41	10,402.41	14,377.68
Halau Lokahi	183	15,732.57	34,568.04	21,210.13
Hawaii Academy of Arts and Science	637	54,763.11	85,374.15	64,658.85
Innovations	223	19,171.39	19,171.39	20,304.89
Ka 'Umeke Ka'eo	275	23,641.84	48,033.14	35,183.90
Ka Waihona o ka Na'auao	633	54,419.24	83,112.20	61,403.63
Kanu o ka 'Aina	269	23,126.02	44,519.18	29,112.63
Kanuikapono	156	13,411.37	27,469.06	17,424.94
Kawaikini	123	10,574.35	37,333.31	18,881.99
Ke Ana La'ahana	51	4,384.49	24,646.75	15,431.68
Ke Kula Ni'ihau O Kekaha	39	3,352.84	36,833.68	16,485.83
Ke Kula 'o Nawahokalani'opu'u Iki	273	23,469.90	29,669.66	29,050.85
Ke Kula o Samuel M. Kamakau	134	11,520.03	21,979.75	16,734.92
Kihei	558	47,971.45	47,971.45	42,035.95
Kona Pacific	243	20,890.79	25,165.41	23,657.86
Kua o ka La	284	24,415.58	37,786.68	30,009.89
Kula Aupuni Ni'ihau A Kaelelani Aloha	62	5,330.16	40,290.40	18,860.26
Na Wai Ola	128	11,004.20	40,724.90	22,561.80
SEEQS	65	5,588.07	16,556.84	8,937.49
Volcano School of Arts and Sciences	188	16,162.42	31,726.13	22,844.68
Voyager	287	24,673.49	30,891.40	25,611.88
West Hawaii Explorations Academy	235	20,203.03	20,203.03	22,070.86
	<u>5587</u>	<u>480,316.29</u>	<u>892,802.00</u>	<u>634,075.00</u>

**Conversion (includes University Lab)/OnLine/Blended excluded from allocation**

Hawaii Technology Academy	1244	106,947.12	-	67,081.37
Kamaile Academy	920	79,092.72	-	49,610.01
Kualapu'u Elementary	334	28,714.09	-	18,010.59
Lanikai Elementary	349	30,003.65	-	18,819.45
Laupahoehoe Community	217	18,655.56	-	11,701.49
Myron B. Thompson Academy	511	43,930.84	-	27,555.13
University Laboratory	444	38,170.83	-	23,942.22
Waialae Elementary	499	42,899.20	-	26,908.04
Waimea Middle	280	24,071.70	-	15,098.70
	<u>4798</u>	<u>412,485.71</u>	<u>-</u>	<u>258,727.00</u>
	<u>10385</u>	<u>892,802.00</u>	<u>892,802.00</u>	<u>892,802.00</u>

[a] Targeted allocation of funds excludes conversion and on-line/blended schools, consideration provided for high needs population served and high school program.

[b] Per pupil and Targeted - First \$560,000 allocated on per pupil basis to all schools, balance allocated on Targeted basis excluding conversion and on line/blended schools and consideration for high needs population served and high school program. Penalty of 50 or 100 points if days cash on hand greater than 121 days as of 3/31/14.



**Allocation of Impact Aid Funds: \$818,085 after Halau Lokahi Teachers Salaries Paid  
Based on Official Enrollment as of Oct. 15, 2013**

		818,084.58		
		<b>Option 4</b>	<b>Option 5</b>	<b>Option 6</b>
	<u>Total</u>	<u>Per Pupil Allocation</u>	<u>Targeted [a]</u>	<u>Per Pupil and Targeted [b]</u>
	<u>Enrollment</u>			
Connections	359	28,787.72	68,167.19	38,492.08
Hakipu'u Learning Center	61	4,891.51	25,862.66	12,320.29
Halau Ku Mana	121	9,702.83	9,702.83	12,946.52
<b>Halau Lokahi</b>	<b>0</b>	-	-	-
Hawaii Academy of Arts and Scie	637	51,080.17	81,604.86	59,299.56
Innovations	223	17,882.07	17,882.07	18,888.23
Ka 'Umeke Ka'eo	275	22,051.88	45,912.47	31,436.98
Ka Waihona o ka Na'auao	633	50,759.41	79,442.78	56,639.71
Kanu o ka 'Aina	269	21,570.75	42,553.65	26,493.05
Kanuikapono	156	12,509.43	26,256.30	15,798.98
Kawaikini	123	9,863.20	35,685.04	16,586.03
Ke Ana La'ahana	51	4,089.62	23,558.59	12,980.86
Ke Kula Ni'ihau O Kekaha	39	3,127.36	35,207.46	13,688.01
Ke Kula 'o Nawahokalani'opu'u II	273	21,891.50	28,359.74	26,489.85
Ke Kula o Samuel M. Kamakau	134	10,745.28	21,009.34	14,989.82
Kihei	558	44,745.27	44,745.27	40,220.47
Kona Pacific	243	19,485.84	24,054.35	21,812.14
Kua o ka La	284	22,773.58	36,118.40	27,387.40
Kula Aupuni Ni'ihau A Kaelelani /	62	4,971.70	38,511.56	15,861.08
Na Wai Ola	128	10,264.15	38,926.89	19,598.36
SEEQS	65	5,212.26	15,825.85	7,929.36
Volcano School of Arts and Scien	188	15,075.47	30,325.42	20,521.37
Voyager	287	23,014.14	29,527.53	23,891.24
West Hawaii Explorations Acadei	235	18,844.33	18,844.33	20,445.23
	<u>5404</u>	<u>433,339.45</u>	<u>818,084.58</u>	<u>554,716.62</u>

**Conversion (includes University Lab)/OnLine/Blended excluded from allocation**

Hawaii Technology Academy	1244	99,754.68		68,284.64
Kamaile Academy	920	73,773.56		50,499.90
Kualapu'u Elementary	334	26,783.01		18,333.66
Lanikai Elementary	349	27,985.84		19,157.03
Laupahoehoe Community	217	17,400.94		11,911.39
Myron B. Thompson Academy	511	40,976.40		28,049.40
University Laboratory	444	35,603.76		24,371.69
Waialae Elementary	499	40,014.14		27,390.71
Waimea Middle	280	22,452.82		15,369.54
	<u>4798</u>	<u>384,745.13</u>	<u>-</u>	<u>263,367.96</u>
	<u>10202</u>	<u>818,084.58</u>	<u>818,084.58</u>	<u>818,084.58</u>